Plaintiff has alleged the following based upon the investigation of plaintiff's counsel, which included a review of SEC filings by Taro Pharmaceutical Industries, Ltd. ("Taro" or the "Company"), as well as regulatory filings and reports, securities analysts' reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company, and plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

INTRODUCTION & OVERVIEW

1. This is a federal class action on behalf of purchasers of the common stock of the Company ("Taro" or the "Company") between February 20, 2003 and July 29, 2004, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

2. Throughout the Class Period, Taro was a company organized under the laws of the Nation of Israel, with its U.S. center of operations located in Hawthorne, New York. Taro is
one of the oldest Israeli companies publicly traded in the U.S., and until recently the Company has primarily been engaged in the manufacture, marketing and sale of generic equivalents of popular drugs. Moreover, according to the Company’s press releases, Taro is “a multinational, science-based pharmaceutical company dedicated to meeting the needs of customers through the discovery, development, manufacturing and marketing of the highest quality healthcare products.” By the inception of the Class Period, however, Taro also purportedly successfully evolved into a vertically integrated company, which in addition to its generic drug business, also developed, manufactured, marketed and sold proprietary drug products and novel drug delivery systems.

3. As a result of the additional risk created by the reorganization of Taro into a vertically integrated generic and proprietary drug and drug product company— as well as the unique issues relating to the lack of transparency surrounding this Company— at all times throughout the Class Period, defendants were well aware that it was critical to investors that Taro be able to roll out its new products while at the same time, maintaining and augmenting the Company’s free cash flow— which sustained cash flow was necessary and critical to support such a roll-out. Thus, by the inception of the Class Period, the following representations made by defendants were critical to Taro shareholders and investors, including:

* That, the transition of Taro from a pure play generic drug company to a vertically integrated drug development company, which developed, manufactured and marketed proprietary drugs and drug delivery products, was not having any adverse impact on the Company.

* That the Company’s rising SG&A costs were being “offset” by incremental upward margin adjustments and cost containment, and despite the fact that the Company was attempting to engage, for the first time, in the development and sale of its proprietary branded products, the higher margins associated with the sale of such products were allowing Taro to keep pace with the Company’s investment in SG&A.
That despite the fact that the Company had spent less than $60 million over its past prior 50 years, **defendants would be able to and were already implementing plans for expansion**, the funds for which would be raised through the sale of debt and/or equity; which expansion was occurring successfully at all times during the Class Period.

That Taro maintained a strong pipeline of new drugs and ANDA applications filed with the FDA and/or had already successfully acquired and integrated several other new generic drugs with FDA approval, such that **investors and shareholders could be reasonably assured that Taro maintained a consistent source of free cash flow, such that the Company could afford to continue its plans for expansion and its independent launch of its proprietary products.**

That, despite increased competition from other generic drug manufacturers, **Taro was maintaining its market share and was protecting its gross profit margins**, such that the Company would foreseeably continue to operate profitably in its current market environment.

**That, during the Class Period, Taro was not experiencing any adverse effects from the implementations of defendants’ new business strategy of rapid growth and expansion** - - which strategy was known to result in substantial additional risks for investors.

4. Unbeknownst to investors, however, throughout the Class Period, the Company was suffering from a host of undisclosed adverse factors which were negatively impacting Taro’s business, which foreseeably would cause it to report declining financial results, materially less than the market expectations defendants had caused and cultivated. In particular:

That, at all times during the Class Period, it was not true that defendants could maintain profitability in Taro’s generic drugs division or generate sufficient free cash flow from the introduction of higher margin proprietary products sufficient to offset the large amounts of money necessary to launch its new products, such that the introduction of its new products was having and foreseeably would continue to have a tremendous drain on the Company’s resources in the foreseeable near term.

That, at all times during the Class Period, defendants had failed to properly record the true level of spending foreseeably necessary and/or actually being spent to develop Taro’s new proprietary drug products, such that it was materially false and misleading for defendants to state, throughout the Class Period, that the roll-out of Taro’s new proprietary drugs was not and foreseeably would not adversely affect the Company’s near- or long-term profitability.
That, at all times during the Class Period, defendants had understated the true negative effects of rising competition relating to the Company’s traditional generic drug business, such that it was impossible and known by defendants to be impossible for Taro to generate sufficient cash flow from operations to support its new product introductions, and/or this was recklessly disregarded as such by defendants.

That, in addition to rising competition, which defendants knew of or recklessly disregarded, defendants also knew but failed to disclose that Taro’s pipeline was not being filled with drugs that would provide Taro significant revenue generating opportunities, but rather during this time, Taro’s pipeline was lean and supported by drugs that would provide Taro entry into very limited markets, the net effect of which, was that Taro’s pipeline was not strong and, throughout the Class Period, Taro was not poised for near term profitability and was not foreseeably able to generate free cash flow form operations sufficient to support the Company’s new product introductions without causing a significant negative impact on profitability.

That, throughout the Class Period, defendants failed to disclose that the real reason that Taro had rushed to the market to sell over $110 million in debt securities, at the time when the Company was flush with cash, was because defendants knew that they could not hide the true impaired financial condition of the Company indefinitely.

That, throughout the Class Period, defendants failed to disclose and materially mislead investors as to the true effects the integration of the Company’s acquired assets was having and foreseeably would continue to have on Taro, or that defendants’ failure to integrate such assets according to guidance which they sponsored and/or endorsed, was having and foreseeably would continue to have a negative impact on the Company.

As a result of the aforementioned adverse conditions which defendants knew but failed to disclose, throughout the Class Period, defendants lacked any reasonable basis to claim that Taro was operating according to plan, that sufficient sources of funding were achieved and/or available to Taro or that the Company could maintain profitability in the foreseeable near-term.

5. Defendants were motivated to and did conceal the true operational and financial condition of Taro, and materially misrepresented and failed to disclose the adverse conditions that were adversely affecting Taro throughout the Class Period, because it enabled defendants to sell at least $110 million in unregistered debt securities to investors during the time that Taro shares were at the height of their artificial inflation.
JURISDICTION AND VENUE

6. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act [15 U.S.C. §§ 78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the United States Securities and Exchange Commission ("SEC") [17 C.F.R. § 240.10b-5].

7. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337, and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

8. Venue is proper in this District pursuant to Section 27 of the Exchange Act, and 28 U.S.C. § 1391(b). Many of the acts and practices complained of herein occurred in substantial part in this District. In addition to the foregoing, during 2002, the period immediately prior to the inception of the Class Period, 87% of Taro's sales were generated in the United States. Also, according to the Company's 2002 Annual Report to Shareholders, Taro maintains a 37,000 square foot laboratory and office space located adjacent to its headquarters in the United States.

9. In addition, because Taro is a corporation organized under the laws of the Nation of Israel with substantial operations in the United States, and with its North American operations based in this District, pursuant to 28 U.S.C.S. §1391(d), as an alien corporation, Taro may properly be sued in any District in the United States. Venue is proper in this District because the Company's principal executive offices for its North American operations are located in this District of New York, where the day-to-day United States operations of the Company are directed and managed.

10. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.
PARTIES

11. Plaintiff Loretta Zwickel, as set forth in the accompanying certification, incorporated by reference herein, purchased the common stock of Taro at artificially inflated prices during the Class Period and has been damaged thereby.

12. Defendant TARO PHARMACEUTICAL INDUSTRIES, LTD. is a corporation organized under the laws of the Nation of Israel, with its principal place of business located in Yakum, Israel and with its U.S. center of operations located in Hawthorne, New York. According to the Company's press releases, Taro is "a multinational, science-based pharmaceutical company dedicated to meeting the needs of customers through the discovery, development, manufacturing and marketing of the highest quality healthcare products." Primarily, the Company manufactures and markets generic equivalents of popular drugs and, as of recently, Taro has attempted to enter the market through the sale of proprietary drug products and novel drug delivery systems.

13. Defendant BARRIE LEVITT ("B. Levitt") is and during the Class Period was, Executive Chairman of the Company. In addition to being the son of the founder of the Company and a Board member of Taro since at least 1963, defendant B. Levitt also purportedly served as an advisor to the U.S. Food and Drug Administration (the "FDA"), between 1971 and 1991. Moreover, because of the unique "two-tiered" share structure of the Company defendant B. Levitt’s ownership of 2,600 "founder shares" entitles him to one third of the total votes in the Company, irrespective of the total number of shares outstanding.

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1 The Company’s SEC filings describe B. Levitt as “an important asset when submitting files [for FDA approval]."
14. Defendant AARON LEVITT ("A. Levitt") is and during the Class Period was, President of the Company, having served in that capacity since at least 1982. Defendant A. Levitt was also a son of the founder of the Company and is the brother of B. Levitt.

15. Defendant DANIEL MOROS ("Moros") is and during the Class Period was, Vice-Chairman in charge of overseeing the Company’s clinical research program, and a member of the Board of Directors. Defendant Moros is also the cousin of A. Levitt and B. Levitt and a relative of the Company’s founder.

16. Defendant SAMUEL RUBINSTEIN ("Rubinstein") is and during the Class Period was, General Manager of the Company and its subsidiaries.

17. Defendant KEVIN CONNELLY ("Connelly") is and during the Class Period was, Chief Financial Officer of the Company, having served in this capacity since at least 1994.

18. The individual defendants referenced above are referred to herein as the "Individual Defendants."

19. Because of the Individual Defendants’ positions with the Company, they had access to the adverse undisclosed information about its business, operations, products, operational trends, financial statements, markets and present and future business prospects via access to internal corporate documents (including the Company’s operating plans, budgets and forecasts and reports of actual operations compared thereto), conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith.

20. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in the
Company's public filings, press releases and other publications as alleged herein are the collective actions of the narrowly defined group of defendants identified above. Each of the above officers of Taro, by virtue of their high-level positions with the Company, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest levels and was privy to confidential proprietary information concerning the Company and its business, operations, products, growth, financial statements, and financial condition, as alleged herein. Said defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, were aware, or recklessly disregarded, that the false and misleading statements were being issued regarding the Company, and approved or ratified these statements, in violation of the federal securities laws.

21. As officers and controlling persons of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was traded on the Nasdaq National Market Exchange (the “Nasdaq”), and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate promptly, accurate and truthful information with respect to the Company’s financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the Company’s publicly-traded securities would be based upon truthful and accurate information. The Individual Defendants’ misrepresentations and omissions during the Class Period violated these specific requirements and obligations.
22. The Individual Defendants participated in the drafting, preparation, and/or approval of the various public and shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board membership and/or executive and managerial positions with Taro, each of the Individual Defendants had access to the adverse undisclosed information about Taro's business prospects and financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about Taro and its business issued or adopted by the Company materially false and misleading.

23. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company during the Class Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases detailed herein and is therefore primarily liable for the representations contained therein.

24. Each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Taro common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding Taro's business, operations, management and the intrinsic value of Taro common stock; (ii) enabled the defendants and the Company to create a large cash horde, by selling over $110 million in debt securities in non-
registered, private transactions with institutional investors, during the Class Period -- as Taro stock traded to all-time record highs; and (iii) caused plaintiff and other members of the Class to purchase Taro securities at artificially inflated prices.

PLAINTIFF’S CLASS ACTION ALLEGATIONS

25. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired the securities of Taro between February 20, 2003 and July 29, 2004, inclusive (the “Class”) and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

26. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Taro common shares were actively traded on the Nasdaq. As of the inception of the filing of this action the Company had over 29 million shares issued and outstanding. While the exact number of Class members is unknown to plaintiff at this time and can only be ascertained through appropriate discovery, plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Taro or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

27. Plaintiff’s claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants’ wrongful conduct in violation of federal law that is complained of herein.
28. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

29. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

   (a) whether the federal securities laws were violated by defendants’ acts as alleged herein;

   (b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Taro; and

   (c) to what extent the members of the Class have sustained damages and the proper measure of damages.

30. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

SUBSTANTIVE ALLEGATIONS

Background

31. The Company. Taro is a company organized under the laws of the nation of Israel, and together with its subsidiaries make, market and distribute prescription and over the counter pharmaceutical products, mainly in the U.S., Canada and Israel. The Company had historically focused on off-patent dermatological products. In 1997, Taro expanded into the
solid-dose business in the U.S. and in early 2002 established its TaroPharma division to promote proprietary products in the U.S. to dermatologists and pediatricians. In 2002, sales by destination as a percentage of total sales were U.S. 87%, Canada 6%, Israel 5% and other 2%.

32. Business Strategy. In addition to the foregoing, throughout the Class Period, defendants consistently maintained that they were adhering to the following business plan:

- To be a specialty pharmaceutical company which, in certain therapeutic areas, is engaged in generic, branded and over the counter market segments.
- To focus on products with high entry barriers.
- To make select acquisition of niche or previously neglected brands.
- To increase the vertical integration of the products.
- To be a research and not distribution-driven company.

33. Two-Tiered Structure. Unlike many other publicly traded companies, where control is distributed along with share ownership, Taro is a company with a "two-tiered" stock structure which consolidates control of the Company in the hands of the Levitt family. Specifically, Taro's two-tiered structure utilizes approximately 2,600 so called "founders shares," which entitle the holder - defendant B. Levitt - to a third of the total votes, irrespective of the number of shares actually outstanding. According to statements made by the Company, the Levitt family controlled at least 49.9% of the votes at the inception of the Class Period - making it virtually impossible to outvote the Levitt family on any issue.

34. Control By The Levitt Family. In addition to controlling a substantial part of the votes of the Company, the Levitt family, heirs of the Company's founder, hold and throughout the Class Period held the following positions at Taro: Chairman, President and Vice-Chairman. As a result of the confluence of ownership and management within Taro, prior to and
throughout the Class Period, analysts noted that Taro appeared more like a “public family business” than an actual public corporation.

35. **Taro’s Stock Price Begins to Rise after years of Range-Bound Trading.** Taro traded between $4.00 and $7.50 per share for at least 20 years, preceding the period that led up to the inception of the Class Period. Several changes that occurred prior inception of the Class Period, however, caused Taro’s stock price to breakout of its range:

* The hiring of defendant Rubenstein as General Manager of the Company, with day to day decision-making control over Taro and its subsidiaries. *Defendant Rubenstein brought new life to the Company by instituting a business strategy of rapid growth and expansion, that resulted in substantial additional risks for Company investors.*

* The transition of the Company from a generic only company to one that was involved in the manufacture and marketing of unique and proprietary drug and drug delivery products. *Next to the integration of acquisitions and rapid growth expansion, the greatest risk for investors during the Class Period, was the purported transition of the Company from a pure play generic drug company to a vertically integrated drug company which developed, manufactured and marketed proprietary drugs and drug delivery products.*

36. **Lack of Transparency.** The combination of little independent Board oversight and near total control over the Company by the Levitt family, however, made it very difficult for investors to know if the Company was achieving its projected goals. Because Taro is an alien corporation, whose shares trade in the U.S, the Company is not required to file interim, quarterly financial results with the SEC. Instead, throughout the Class Period, Taro regularly issued press releases announcing quarterly results, but these releases lacked to kind of detail that U.S. corporations, and even other foreign corporations, regularly file with the SEC in the U.S. Thus, the statements contained in Taro’s press releases and public statements were even more critical and important to investors and shareholders during the Class Period, and increased shareholder and investor reliance thereon.
37. **Investor Reliance.** The lack of transparency into the Company also made investor reliance on defendants' statements more significant in light of the market and business conditions which were affecting the Company at the inception of the Class Period.

* Unbeknownst to investors, however, as referenced in ¶ 4, above, throughout the Class Period, the Company was suffering from a host of undisclosed adverse factors which were negatively impacting its business and which would cause it to report declining financial results, materially less than the market expectations defendants had caused and cultivated.

38. **Scienter.** Defendants were motivated to and did conceal the true operational and financial condition of Taro, and materially misrepresented and failed to disclose the adverse conditions that were adversely affecting Taro throughout the Class Period, because it enabled defendants to sell at least $110 million in unregistered debt securities to investors during the time that Taro shares were at the height of their artificial inflation.

**Defendants' Materially False and Misleading Statements Made During the Class Period**

39. **“Record” 4Q and FY 2002 Earnings Announced.** On February 20, 2003, the inception of the Class Period, Taro published a release on Business Wire which announced “28 Consecutive Quarters of Record Sales [and] 18 Consecutive Quarters of Record Net Income.” For FY:03 Taro reported that total revenues purported to increase 42% to 211.58 million and that net income increased 71% to $44.55 million, or $1.52 per share, compared to sales and income reported the prior year. This release also quoted defendant B. Levitt and stated, in part, the following:

“The results of the fourth quarter reflect excellent top line growth and profitability. The investment in promotion and advertising of proprietary products increased during the quarter and is expected to continue as Taro pursues its proprietary marketing initiatives in the United States and elsewhere,” said Barrie Levitt, M.D., Chairman of the Company.
40. In addition to the foregoing, the same day, February 20, 2003, defendants also hosted a conference call for analysts and investors during which defendants stated, in part, the following:

BARRIE LEVITT, CHAIRMAN, TARO PHARMACEUTICAL INDUSTRIES LIMITED: Thank you, Dan. We are very proud of Taro’s performance in the fourth quarter in indeed for the full year of 2002. This quarter was simply outstanding. It was Taro’s 28 consecutive quarter of record sales and 18 consecutive quarter of record net income. This translates into seven years of record sales and four and a half years of record net income.

* * *

Upon completion of our current capital investment program, we estimate that we will have more than trebled our total manufacturing capacity.

In addition to the foregoing, during the question and answer portion of the conference call, defendant Connelly also responded to analyst Woeger’s question regarding the Company’s increase in receivables and inventory, as follows:

ELLIOTT WOEGER: OK, thanks, and two quick financial questions for Kevin. Could you address the sequential increase in receivables and inventory levels at year end?

KEVIN CONNELLY: Sure. Quite frankly, a lot of it’s driven by a strong performance on the topline, I think that basically our DSOs, our Days Sales Outstanding have been somewhere between 90 to 110 days, depending on when the sales take place within the quarter. So I think we’re pretty comfortable with where the DSO level is at the end of the year, at about 98, 99 days of sales outstanding. So that’s pretty much in line. So the real growth there has been an increase in the top line. And, the inventory growth is obviously driven by the growth in the top line, and during the year, as well as to some extent making sure that we have enough inventory onhand to cover the increase in demand that we’ll see going forward into 2003.

41. The statements contained in the Company’s February 20, 2003 release and those statements made by defendants to analysts, investors and the press during the Company’s February 20, 2003 conference call, reproduced in part herein supra, were each materially false
and misleading when made, and were known by defendants to be false at that time or were recklessly disregarded as such thereby, for the following reasons, among others:

(a) That, at all times during the Class Period, it was not true that defendants could maintain profitability in Taro's generic drugs division or generate sufficient free cash flow from the introduction of higher margin proprietary products to offset the large amounts of money necessary to launch its new products, such that the introduction of its new products was having and foreseeably would continue to have a tremendous drain on the Company's resources in the foreseeable near term;

(b) That, at all times during the Class Period, defendants had failed to properly record the true level of spending foreseeable necessary and/or actually being spent to develop Taro's new proprietary drug products, such that it was materially false and misleading for defendants to state, throughout the Class Period, that the roll-out of Taro's new proprietary drugs was not and foreseeably would not adversely affect the Company's near- or long-term profitability;

(c) That, at all times during the Class Period, defendants had understated the true negative effects of rising competition relating to the Company's traditional generic drug business, such that it was impossible and known by defendants to be impossible for Taro to generate sufficient cash flow from operations to support its new product introductions, and/or this was recklessly disregarded as such by defendants;

(d) That, in addition to rising competition which defendants knew of or recklessly disregarded, defendants also knew but failed to disclose that Taro's pipeline was not being filled with drugs that would provide Taro significant revenue generating opportunities, but rather during this time, Taro's pipeline was lean and supported by drugs that would provide Taro
entry into very limited markets, the net effect of which was that Taro’s pipeline was not strong and, throughout the Class Period, Taro was not poised for near-term profitability and was not foreseeably able to generate free cash flow form operations sufficient to support the Company’s new product introductions without causing a significant negative impact on profitability;

(e) That, throughout the Class Period, defendants failed to disclose that the real reason that Taro had rushed to the market to sell over $110 million in debt securities, at the time when the Company was rich with cash, was because defendants knew that they could not hide the true impaired financial condition of the Company indefinitely;

(f) That, throughout the Class Period, defendants failed to disclose and materially misled investors as to the true effects the integration of the Company’s acquired assets was having and foreseeably would continue to have on Taro, or that defendants’ failure to integrate such assets according to guidance which they sponsored and/or endorsed, was having and foreseeably would continue to have a negative impact on the Company; and

(g) As a result of the aforementioned adverse conditions which defendants knew but failed to disclose, throughout the Class Period, defendants lacked any reasonable basis to claim that Taro was operating according to plan, that sufficient sources of funding were achieved and/or available to Taro or that the Company could maintain profitability in the foreseeable near-term.

42. Merrill Lynch “BUY” Rating. The statements made by defendants in the Company’s release and during its conference call had their intended effect and, as evidence of this, the same day that defendants issued these statements, analyst Paul Woodhouse at Merrill Lynch issued a report on the Company in which he reiterated Taro’s “BUY” rating. “Especially pleasing is that the top line revenue was materially stronger even than we had anticipated,” he
wrote. Based in substantial part on defendants’ statements, Woodhouse set his 12-month target price for the stock at $46.00 per share.

43. **CIBC Raises Forecasts.** In addition to the positive Merrill rating, days later on February 24, 2003, analysts from CIBC World Markets announced that they raised their estimates on Taro, after the drug maker reported fourth quarter results above consensus estimates. At that time, CIBC analyst Elliot Wilbur raised his share price objective to $39.00 from $35.00 per share, and maintained the “Sector Performer” rating on the Company. At the same time, CIBC also increased revenues forecasts for 2003 to $268.5 million from $235 million, and for 2004 to $308.5 million from $276 million and also raised earnings per share (EPS) forecasts for this year to $1.93 from $1.75, and the forecast for next year was raised to $2.32 from $2.11. According to CIBC, the higher estimates reflected the strong performance of the company’s base business, a potential acceleration in new products from the company’s drug pipeline, and the potential impact from recent strategic moves to accelerate its presence into the higher-margin branded product arena.

44. **“AA” Bond Rating.** On March 31, 2003, defendants also published a release on Business Wire, which announced that Taro had received a ‘AA’ Bond Rating from Maalot, the Israeli affiliate of Standard & Poor’s, based on the rating standard employed in Israel, for the issuance of debt securities in Israel. At this time, defendants stated that this strong bond rating represents an increase from the “A+” rating previously issued by Maalot for two series of bonds issued by the Company to institutional investors in Israel in 1999 and 2000. At this time defendants also stated that, “The Company believes that the improved rating announced today reflects Taro’s continued strong financial performance since those previous bond issues.”
45. "Record" 1Q:03 Earnings Announced. On April 15, 2003, after the close of trading Taro published a release on Business Wire which announced "record sales and earnings" for the first quarter of 2003, the period ending March 31, 2003. For 1Q:03 Taro reported that total revenues increased 55% to $69.0 million and that net income increased 42% to $14.0 million, or $0.47 per share. This release also quoted defendant Levitt and stated, in part, the following:

Taro Reports Record First Quarter 2003 Results; 29th Consecutive Quarter of Record Sales, 19th Consecutive Quarter of Record Net Income

"Taro’s investments in research, manufacturing and marketing have resulted in a sustained growth record," said [defendant B.] Levitt.

Taro’s first quarter 2003 sales increased 55% to $69.0 million, compared with sales of $44.5 million for the first quarter of 2002. Gross profit in the first quarter of 2003 increased 54% to $44.4 million, or 64% of sales, compared with $28.8 million, or 65% of sales, for the year-ago quarter.

Selling, general and administrative ("SG&A") expenses were 25% of sales, or $17.5 million, compared with 26% of sales, or $11.7 million, in the first quarter of 2002. SG&A expenses in the quarter reflect increases in selling costs associated with the Company’s initiation of U.S. marketing activities for proprietary products.

* * *

Net income for the quarter increased 42% to $14.0 million, or $0.47 per diluted ordinary share, compared with $9.9 million, or $0.34 per diluted ordinary share, for the first quarter of 2002.

46. Regarding the Company’s future growth plans, defendant B. Levitt also used Taro’s release to assure investors and shareholders of the following:

"We plan to continue making capital investments in line with increasing demand for Taro’s products and the growth of the company’s pipeline," said [defendant B.] Levitt. "To prepare for this growth, we intend to continue to augment Taro’s production capacity and other infrastructure requirements."
47. **Zack's Upgrade.** Immediately after the Company published these purported “record” breaking quarterly financial results, Zack’s investment analysts issued a very positive report on the Company, recommending that investors purchase Taro shares:

Taro Pharmaceutical Industries Ltd. (NASDAQ:TARO) is engaged in the production, research and development, and marketing of prescription and over-the-counter pharmaceutical products, with a focus on generic products. Earlier this month, TARO’s U.S. affiliate received approval from the FDA for its Abbreviated New Drug Application for ammonium lactate cream. Financial results for the first quarter of 2003 will be released on April 16th. In late February, the company posted a fourth quarter sales improvement of +43% and a net income advanced of +32% to 44 cents, which surpassed Wall Street. The totals marked **TARO’s 28th straight quarter of record sales and its 18th straight quarter of record net income.** Its earnings estimates are at higher levels than three months back, and another strong quarter could give TARO further growth. With a track record like this, it's easy to see that TARO is on the right path and may be able to cure the ills in your investment universe.

48. **1Q:03 Conference Call.** Moreover, the following day, April 16, 2003, defendants also hosted a conference call for analysts and investors during which they stated, in part, the following:

**B. LEVITT:** We're very proud of Taro's performance in the first quarter of 2003. *This was the 29th consecutive quarter of record sales and a 19th consecutive quarter of record net income.* Translating into years that means more than seven years of record sales, and nearly five years of record net income. *During the first quarter of 2003, Taro’s core generic products continued to produce excellent results.* In addition, we made significant investments in the company’s marketing, manufacturing, and research infrastructure.

* * *

**CONNELLY:** I just like to touch briefly on some highlights of the company’s performance for the quarter.... *We're obviously very pleased with the results for the first quarter of 2003. The income results continue to demonstrate the sustained performance of the company as well as our commitment to Research and Development.* Sales of $69 million for the quarter or 55% increase from the prior year, and it represents the company’s *29th consecutive quarter of record sales..... Our gross margin of 64% for the quarter remains among the highest in the new generic industry and again demonstrate the sustained performance of our inline business and the contribution from new product approvals.*
Our SG&A, as a percentage of the sales for the quarter was 25% and including the cost related to the launch of products approved in US and in the marketing efforts behind the promotion Kerasol. In addition, we did introduce a professional medical sales representative team during the quarter and they are currently responsible for marketing the products that we acquired during the first quarter for Medicis. Our commitment to research and development continued with 13% of our topline invested in research and development during the quarter for approximately $8.7 million. This is an increase of 63% from 2002.

* * *

The sustained performance of the company was once again demonstrated by the net income for the quarter of $13.989 million or 47 cents per share—our 19th consecutive quarter record earnings. And this represents an increase of 42% and net income for the quarter—a performance at - all of us Taro are quite proud of....

49. SG&A Analysis. When the Company opened the call to questions and answers, Paul Eliot, and analyst at Dominic & Dominic, asked the following question regarding the Company’s SG&A expenses, and received the following answer from defendant Connelly:

ELLIOT: Yes. Great quarter guys and...it’s just unbelievable. In any case most of my questions were answered by the preceding call but I just have one additional thought processes, I wonder if you can give us some guidance on it. And this reflects the NonSpil—would you say that the higher than normal high level of SG&A related to the launching of the NonSpil later this year?

CONNELLY: Paul, most of the expenses that you see in SG&A relate to the launch of Kerasal, which so far has been reasonably successful, but one thing that we can always guarantee you about the launch of the product is the cost. We can’t guarantee results. And the other part of SG&A was driven primarily by the professional division - the TaroPharma division, where we obviously added people. People are expensive, but as Kevin said, the rate of change in expense needs to be matched by the rate of change in sales. However there is a delay between the making the investments in people and getting the return. So we released the few quarters’ difference making the expense and getting some kind of an optimization and we’ll respond. So, we are just going to have to wait and see the NonSpil did not measure - make a significant -- was not a significant part of the expenses in Q1.

50. The statements contained in the Company’s April 15, 2003 release and those statements made by defendants to analysts, investors and the press during the period, reproduced in part herein supra, were each materially false and misleading when made, and were known by
defendants to be false at that time or were recklessly disregarded as such thereby, for the reasons stated herein in ¶41, supra.

51. **CIBC “Overweight” Rating.** The materially false and misleading statements published by defendants as well as one on one statements with analysts had their intended effect and, as evidence of this, on April 16, 2003, analysts at CIBC World Markets issued a very positive report on Taro, with an “OVERWEIGHT” rating, as follows:

**Taro Pharmaceutical Reports Better Than Expected 1Q03 Results; Upside Story Continues To Build**

**1Q03 Results: Highlights Of The Quarter**

* Taro delivered another quarter of impressive sequential top and bottom-line growth surpassing our expectations and the Street consensus based on continued momentum in its base business with a modest additive benefit form recent new approvals and product acquisitions. **Total revenue and product mix offset higher expenses and conservative tax rate accrual to deliver bottom-line upside for 1Q03.**

* * *

* EPS Update. Given the continued strong performance of the company’s base business, a potential acceleration in new product events from the company’s ANDA pipeline, and the potential positive impact from the company’s recent strategic moves to accelerate its presence in the higher-margin branded product arena, we continue to believe an upside story is building. Although we believe further substantial multiple expansion is unlikely, we are raising our 2003-2004 EPS estimates to $2.00 and $2.35 from $1.95 and $2.32 respectively.*

In addition to the foregoing, analysts at CBIC also issued near-term EPS estimates, as follows:

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52. **$60M Debt Offering.** Taking full advantage of the artificial inflation in the price of Taro stock caused by the publication of defendants' false and materially misleading statements, defendants immediately raced to the market to sell $60 million in long-term, non-convertible debt to Israeli banks and institutional investors in Israel, in an unregistered offering. According to the Company's release, published on *Business Wire* on May 22, 2003, defendant B. Levitt stated that, "these funds will further enhance Taro's financial flexibility."

53. **$60M Issue A "Surprise."** Analysts, however, viewed the offering as a "surprise" given the Company's $122 million in cash reserves. According to *Globes* online, defendants explained the necessity of raising funds at that time, as follows:

*The issue may seem like a surprise.* After all, the company has cash reserves of $122 million, but [defendant] Rubinstein asserts that the company wants to stock up on cash for its large-scale investments in facilities and R&D, and possible acquisitions. "We don't want to miss further opportunities because of a lack of money, as happened with the acquisition of the plant in Ireland," Rubinstein says, and adds, "We want to continue growing and developing. We're constantly looking to acquire products, product lines, and activities to complement our own activity, and we've got to have enough money for it. Furthermore, we're expanding our plants in Haifa, Toronto, Ireland, and other places."

54. The statements contained in the Company's May 22, 2003 release and those statements made by defendants to analysts, investors and the press at or around that time, which statements are reproduced in part herein *supra*, were each materially false and misleading when made and were known by defendants to be false at that time or were recklessly disregarded as such thereby, for the reasons stated herein in ¶41, *supra*. In addition, these statements were materially false and misleading because, defendants did not disclose at this time that the Company was taking the opportunity to hoard cash in advance of its belated disclosure of the true impaired financial and operational condition of Taro.

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55. **Merrill Lynch “BUY” Rating.** The materially false and misleading statements published by defendants had their intended effect and, as evidence of this, on June 12, 2003, analysts at Merrill Lynch restarted coverage of Taro and issued a very positive report on the Company, with a “BUY” rating. That day, *Globes* reported the following:

*Merrill Lynch today restarted coverage of Israeli generic drug makers Teva (Nasdaq: TEVA) and Taro Pharmaceutical Industries (Nasdaq: TARO) with “Buy” ratings on both stocks.*

* * *

The analyst was also **bullish on Taro**, saying that although it was a relatively small company, **Taro had acquired critical mass in the topicals market**, in which it maintained a leading market position. He issued a **$63 price target on the stock, offering 21% upside from current levels.**

**“Taro’s base business offers significantly more stability than most companies in the generic industry,”** and the company maintains significant operating leverage as well,” Gilbert said.

The analyst set his estimate for Taro’s EPS at **$2.03** for 2003, compared with consensus estimates of **$2.02**. **The EPS forecast in 2004 was set at $2.56, above consensus estimates of $2.41.**

* * *

Taro shares closed on Nasdaq on Wednesday at $52.07

56. **“Record” 2Q:03 Results Announced.** On July 24, 2003, Taro published a release on *Business Wire* announcing “record” financial results for the second quarter of 2003, the period ending June 30, 2003. For 2Q:03 Taro reported that total revenues increased 51% to $74.8 million, net income increased 45% to $14.8 million, or $0.50 per share, and gross profits purported to increase 62% to $50 million. In addition, the release stated, in part, the following:

**The second quarter of 2003 represents Taro’s 30th consecutive quarter of record sales and 20th consecutive quarter of record net income.**

Taro’s second **quarter sales increased 51% to $74.8 million,** compared with $49.6 million in the second quarter of 2002. **Gross profit for the quarter increased 62% to $50.0 million, or 67% of sales,** compared with $30.8 million, or 62% of sales, for the second quarter of 2002.

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Selling, general and administrative expenses for the quarter were $22.4 million, or 30% of sales, compared with $12.6 million, or 26% of sales, in the year-ago quarter. The increase in selling, general and administrative expenses as a percentage of sales primarily reflects costs associated with the Company's newly established proprietary product divisions, TaroPharma and Taro Consumer Healthcare Products.

Operating income before R&D expenses increased 52% to $27.6 million, or 37% of sales, compared with $18.2 million, or 37% of sales, for the second quarter of 2002. R&D expenses were $9.6 million, or 13% of sales, compared with $6.2 million, or 13% of sales, for the year-ago quarter. Operating income increased 51% to $18.0 million, or 24% of sales, compared with $11.9 million, or 24% of sales, in the second quarter of 2002.

Net income for the quarter increased 45% to $14.8 million, or $0.50 per diluted share, compared with $10.2 million, or $0.35 per diluted share, for the year-ago quarter.

57. In addition to the foregoing, this release also quoted defendant B. Levitt, as follows:

"The Company has continued to produce excellent results in the second quarter," stated [defendant B.] Levitt, "while investing in our two new divisions for proprietary products: TaroPharma, the Company's platform for direct-to-physician marketing of proprietary products, and Taro Consumer Healthcare Products, our division for marketing proprietary over-the-counter products."

58. 2Q:03 Conference Call. Later that same day, on July 24, 2003, defendants also hosted a conference call for analysts and investors during which defendants stated, in part, the following:

B. LEVITT: Well, we have now reached round numbers 30 and 20. This was Taro's 30th consecutive quarter of record sales and 20th consecutive quarter of record net income. This translates into 7.5 years of record sales and 5 years of record net income. Taro's base generic business in the United States, both topical and oral products, remained strong during the quarter. The growth was augmented by the introduction of topical products approved by the FDA at the end of last year.

CONNELLY: Thanks Barrie, good morning and good afternoon to everybody. I'll just touch on some highlights for the Company's performance for the second quarter and then a little bit on the balance sheet.
We're obviously very pleased with the results of the second quarter of 2003. These results continue to demonstrate the sustained performance of the Company, our commitment to research and development (R&D), as well as our ability to invest in what are essentially two new business initiatives, TaroPharma and Taro Consumer Healthcare, while still increasing our bottom line.

* * *

The gross margin of 67% for the quarter remains among the highest in the generic industry and again demonstrates the sustained performance of our in line business, the contribution from new product approvals, and also the sales of some of our proprietary product lines.

Our SG&A as a percentage of sales was 30% for the quarter, an increase of 77% from a year ago and the SG&A expenses were impacted by the costs related to the launch of new products introduced in the US and the marketing efforts behind the promotion of Kerasal. In addition, we are investing in a team of professional sales reps who are responsible for marketing our proprietary products directly to physicians.

* * *

Finally, the sustained performance of the Company was demonstrated by the net income for the quarter of $14.8m or $0.50 per fully diluted share, our 20th consecutive quarter of record earnings. And this represents an increase of 45% in net income for the quarter, a performance that all of us at Taro are quite proud of.

59. **SG&A Analysis.** When the Company opened the call to questions and answers, Greg Gilbert, and analyst at Merrill Lynch, asked the following question regarding the Company’s SG&A expenses:

**GILBERT:** Yes, hi, I have a couple, first for Kevin. Can I assume that we did not see any significant sales of the new branded products in the quarter, but that we did see SG&A associated with them?

**CONNELLY:** Again, it depends on your definition of significant, Greg. But no, I mean, it was moderate in regards to its contribution from both Kerasal and the other branded products.

**GILBERT:** And can you help us out at all with -- I know you mentioned product mix is driving the tax rate lower. How should we think about that going forward for the rest of this year? And can you also give us some help with the shape of the curve of SG&A in the back half? Obviously you
have brand products. You have ElixSure. Can you give us any color on that?

CONNELLY: Yeah. Again, the tax rate is always difficult to predict, just because such a small difference in where those products originate from and their sales can have an impact on our tax rate. You know a $3-4m in a shift on sales between an Israeli produced product versus a Canadian produced product or from one of our other manufacturing sites can have an impact.

I think, in the past, everyone has been somewhere in that 18-19%, high-teens range and that seems to be where things always have a tendency to average out, so again, difficult to predict. It depends on what the customers are buying. But that’s seems to have worked in the past for a lot of people.

On the SG&A side, you are correct in that we haven’t launched ElixSure in through the second quarter. Barrie mentioned that we’re now in the act of going ahead and doing that. In regards to the SG&A curve, we’re going to support that product.

60. Because the Company was launching its first branded products on its own, it was critical that Taro maintained transparency into its business, and that defendants were able to maintain profit growth that was proportionally relative to marketing and other expenses, such that higher margins were offsetting rising SG&A. As evidence of the importance of this information to analysts and investors, during the conference, analyst Elliot Wilber, of CIBC World Markets, asked the following question and received the following response:

WILBUR: Good morning gentlemen. Congratulations on another strong quarter. The first question is for you, Kevin, on your gross margin performance in the quarter. I’m not sure if this is accurate or not, but it looks pretty close to being a record level. And I’m wondering if that’s reflective of the contribution of the branded products in the mix or if, perhaps, just simply higher volumes and increased absorption are also driving that strong performance?

CONNELLY: I’m happy to say it’s both, actually, Elliot and good to hear from you. Yeah, it really is a combination of both things. Obviously the base business makes up the biggest part of the sales and that’s really being driven by efficiencies in manufacturing, which is allowing us to continue to drive a very healthy gross margin.

At the same time, I think there is a bit of a shift in the overall Company strategy. We are talking about getting into some branded products and basically what you
see in the model is, obviously, some higher gross margins, but at the same time a higher investment on the sales and marketing end of it.

And we’ve worked closely with our sales and marketing people here to make sure that we’re efficient in our investment and expenses in getting those products out there, but I think that’s kind of reflected in the numbers for this quarter. So, you’ll see some higher margins, but at the same time an investment on the SG&A side.

61. The statements contained in the Company’s July 24, 2003 release and those statements made by defendants to analysts, investors and the press at or around that time, which statements are reproduced in part herein supra, were each materially false and misleading when made and were known by defendants to be false at that time or were recklessly disregarded as such thereby, for the reasons stated herein in ¶63, supra.

62. CIBC “Overweight” Rating. The materially false and misleading statements published by defendants as well as the statements defendants made to analysts, had their intended effect and, as evidence of this, on or about July 26, 2003, analysts at CIBC World Markets issued a very positive report on the Company, with an “OVERWEIGHT” rating, as follows:

Better Than Expected Top and Bottom Line; Raising ‘03 - ‘04 Estimates

* TARO again reported better than expected top line results as the company’s base business continues to outperform our assumptions. Total revenue, product mix, and lower tax rate offset accelerating SG&A to deliver a penny upside to our 2Q03 EPS estimate.

**

* Tough the company guided toward higher operating expenses in 2H03, we believe that TARO will be able to successfully leverage its new sales force to fuel increased top line growth. Also, during 2Q03, the company had impressive product mix and gross margin growth of 4.7% to 66.8%.

* As the recent stock price appreciation largely anticipated a strong second quarter, we do not expect significant near term multiple expansion vs. the group, though we remain confident that 2H03 pipeline fill and promotion efforts will pay off and we are raising our ‘03 – ‘04 estimates.
In addition to the foregoing, analysts at CBIC also issued near-term EPS estimates, as follows:

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63. **Merrill Lynch “BUY” Rating.** In addition to the foregoing, on or about July 27, 2003, analysts at Merrill Lynch also issued a report on the Company and continued to maintain a “BUY” rating on shares of Taro, as reported by *Globes*, as follows:

*Merrill Lynch has reiterated a “Buy” rating and $63 price target on Taro Pharmaceutical Industries (Nasdaq: TARO), after the drug maker last week reported financial results that met analysts’ expectations.*

*“Overall, the quarter was solid,” said Merrill Lynch analyst Gregory Gilbert. “Total revenue of $74.8 million compared favorably to our $71 million estimate, as most products continue to gain market share. Gross margin of 66.9% handily beat our conservative 63% estimate, due in part to the inclusion of higher-margin acquired brands.”*

The analyst said his price target assumed a multiple of 24.4 times the $2.58 EPS estimate for 2004. Key risks for the target, which stood 16% above Taro’s closing price on Friday, included potential additional generic competition to skin cream Lotrisone, approval delays, and political uncertainties in the Middle East, the analyst added.

Gilbert said he did not view Alpharma’s generic Lotrisone, which is approved but not yet launched, as a major near-term threat. “We get the sense that Alpharma may or may not launch the product this year, and that the company has low expectations for its sales if launched.”

64. On or about July 28, 2003, based in substantial part on the purported financial performance of Taro and its soaring stock price, the Company issued to defendant Rubinstein 5,000 shares of common stock, then valued at over US $270,000.
65. In mid- to late- September, the Company presented at analysts conferences hosted by both Merrill Lynch (9/09) and by Bear Stearns (9/24). During this same time, shares of the Company rallied, from just above $52.00 per share on 9/8/03 to a close of almost $59.00 on 9/23/03. In the days and weeks after these conferences, shares of the Company continued to rise, trading to $66.00 per share on 10/14/03.

66. **“Record” 3Q:03 Results Announced.** On October 30, 2003, Taro published a release on Business Wire which announced “record” financial results for the third quarter of 2003, the period ending September 30, 2003. For 3Q:03 Taro reported that total revenues increased 50% to $83.1 million, net income increased 36% to $15.7 million, or $0.53 per share, and gross profits purported to increase 61% to $56 million. In addition, this release also stated, in part, the following:

_Taro Pharmaceutical Industries Ltd. (Nasdaq/NMS: TARO) today reported record results for the Company’s third quarter and the nine month period ended September 30, 2003._

**Third Quarter 2003 Results**

The third quarter results represent the Company’s 31st consecutive quarter of record sales and its 21st consecutive quarter of record net income.

Third quarter 2003 sales increased 50% to a record $83.1 million, from $55.5 million in the third quarter of 2002. *Taro’s gross profit in the third quarter of 2003 increased 67% to $56.6 million, or 68% of sales, up from $33.9 million, or 61% of sales, in the third quarter of the prior year. Selling, general and administrative (“SGA”) expenses increased 97% to $25.7 million, or 31% of sales, compared with $13.1 million, or 24% of sales, in the third quarter of 2002. The increase in SGA expenses as a percentage of sales primarily reflects costs associated with the Company’s newly established proprietary products divisions, TaroPharma and Taro Consumer Healthcare Products (“TCHP”).*

*Operating income before R&D expenses increased to $30.9 million, or 37% of sales, from $20.9 million, or 38% of sales, for the third quarter of 2002. R&D expenses increased 65% to $11.2 million, or 14% of sales, compared with $6.8 million, or 12% of sales, for the third quarter of 2002.*
Net income for the quarter increased 36% to a record $15.7 million, or $0.53 per diluted share, compared with $11.6 million, or $0.39 per diluted share, for the third quarter of 2002.

"Growth in our core U.S. generics business and sales of proprietary prescription and over-the-counter products have contributed to a strong quarter," said Barrie Levitt, M.D., Chairman of the Company.

67. **3Q:03 Conference Call.** Later the same day, on October 30, 2003, defendants also hosted a conference call for analysts and investors during which defendants stated, in part, the following:

**B.LEVITT:** 
*Taro continued its record performance in the third quarter of 2003. This was the Company’s 31st consecutive quarter of record sales and 21st quarter of record net income. This translates into more than 7 years of record sales and more than 5 years of record net income. While our generic business in the United States, both in topical and oral products, continued to account for a major share in this performance, Taro’s proprietary product divisions, TaroPharma and Taro Consumer Health Care Products, are expected to play an increasing role in the Company’s future.*

The primary force behind our achievements continues to be our investment in research. We had 20 filings with the FDA on January 1st of this year, and today we have 33. Our filings include a new drug application related to our patented NonSpil liquid drug delivery system. Our research operations are now located in four countries -- Israel, Canada, the United States and Ireland. All four research centers are growing and we are attracting first-class scientists to work at each. Our research staff now numbers nearly 250 people, including 80 with doctoral degrees in medicine or the health sciences. Nearly one in five Taro employees is directly involved in developing new proprietary and generic products.

* * *

*Two years ago, I was asked on network television what I thought about Taro’s future. Based on my confidence in our research, marketing and sales teams, I said -- the best is yet to come. Since that time, we have had 10 quarters of outstanding performance, and my confidence in our research, marketing and sales teams is as high as ever. Thank you, ladies and gentlemen, and now Kevin, will you give the details of our financial results.*

68. The statements contained in the Company’s October 30, 2003 release and those statements made by defendants to analysts, investors and the press at or around that time, which statements are reproduced in part herein *supra*, were each materially false and misleading when
made and were known by defendants to be false at that time or were recklessly disregarded as such thereby, for the reasons stated herein in ¶41, supra.

69. **CIBC Report: “OVERWEIGHT.”** As evidence that analysts believed that Taro was continuing to control costs by offsetting rising SG&A with increased profits, on October 31, 2003, CIBC World Markets issued an analyst report which continued to advise investors to “OVERWEIGHT” their portfolios in favor of Taro securities, as follows:

**Key Products Gain Traction; Despite Increasing Costs Raising ‘03 – ‘04 Forecast**

* Once again, TARO reported top- and bottom-line results ahead of expectations as strong revenue and gross margin trends offset increasing promotional expenses. Importantly, core product sales show no signs of slowing as Taro’s first entry into the branded OTC market gains traction.

* EPS of $0.53 slightly exceeded our 0.51 est. and rose 34% y/y. Product sales of $83.1M (+49.8% y/y) came in above our $78.1M estimate, while gross margin advanced to 68.0% vs. 61.2% in 3Q02, offsetting an 85.6% rise in operating expenses to $36.9M vs. our $31.5M estimate.

Given the y/y acceleration of sales of key products... we are raising our 4Q03 EPS estimate to $0.55 from $0.53, thereby moving our 2003 EPS estimate to $2.07 from $2.02. We are also increasing our 2004 EPS estimate to $2.46 from $2.40.

In addition to the foregoing, analysts at CBIC also issued near-term EPS estimates, as follows:

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70. **Added to Nasdaq NBI Index.** By November 5, 2003, shares of the Company traded to another 52 week high, reaching a market close of $67.50 per share. Moreover,
following the huge increase in the Company’s market capitalization based on its soaring stock price, on or about November 14, 2003, Taro was selected to be added to the Nasdaq Biotechnology Index ("NBI"), effective November 24, 2003. The inclusion of the Company in the Nasdaq index also increased Taro’s market exposure, as managers of NBI indexed funds acquired shares of the Company for their portfolios. This inclusion in the NBI index helped to push shares of Taro even higher, and on November 28, 2003, just days after the Company was officially added to the NIB index, shares of Taro closed at another 52-week high, closing at $68.95 per share.

71. **$50M Additional Debt Sales.** With shares of the Company trading at record highs, defendants once again raced to the market to raise even more money. Despite the fact that the Company had over $122 million before it raised $60 million only a few months prior, on December 1, 2003, defendants announced that Taro would sell an additional $50 million in unregistered debt to institutional investors and banks. At the time this offering was announced, Globes quoted defendant Rubinstein, as follows:

*The money might be used to pursue development of Taro’s no spill product line of drugs suitable for children and the elderly. “We haven’t yet recorded any revenue from this area,” Rubinstein has said in the past, “It began right at the end of the third quarter. We’re still in the initial stage of market entry, which we hope will succeed. The burden of proof is on us, but if we don’t believe in it, we couldn’t have entered the field.”*

72. Following the announcement that Taro had raised even more money, shares of the Company again traded to a 52-week high and on December 2, 2003, shares of Taro closed at $72.11 per share.

73. **William Blair Report.** As evidence that analysts believed that Taro was continuing to control costs by offsetting rising SG&A with increased profits, on January 13,
2004, William Blair & Company issued a very positive analyst report on Taro, which stated, in part, the following:

*Business model is becoming increasingly diversified.* We estimate Taro’s businesses in generic and branded prescription pharmaceuticals and OTC medicines primarily in the dermatology and pediatric markets will generate 20% compounded EPS growth between 2003 and 2008. The company recently created separate U.S. operating units for each of its franchises, including an expanded sales and marketing organization that could strengthen Taro’s ties with its core base of dermatologists and pediatricians, thereby potentially benefiting both its branded and generic product sales.

*Strong base business alone provides reasons for stock ownership, in our view. We believe midteens earnings growth is achievable in Taro’s base business through 2008.* The company has built robust and defensible positions in several markets, including topical dermatologic therapies and certain orally administered generics, with high entry barriers due to scarce raw materials and/or complex formulation and regulatory issues....

*Branded product initiatives could lead to incremental growth opportunities.* In January 2003, TaroPharma, Taro’s branded business, was established to market several dermatology products the company acquired over the past year. Taro is leveraging its salesforce to promote both its branded and generic products, which could lead to strong revenue growth in both businesses, as reflected in our projection for average revenue growth in the mid- to high teens through 2008. *Although specifics regarding the company’s proprietary pipeline remain scarce, Taro likely will have employed more capital to expand development and manufacturing capacity within the 2002 to 2005 period than it had in its entire 50-plus years as a company prior to 2002.* Given management’s record for fiscal conservatism and 25% ownership position in Taro’s shares, we are optimistic that the additional capacity will be put to good use.

*Long-term growth opportunity outweighs near-term valuation concerns, in our view.* Taro’s streak of consecutive quarters of record sales, currently at 31, likely will end at some point, and management has stated it will not pass up longer-term opportunities for the sake of quarterly earnings growth, which could result in near-term share volatility, particularly given the significant appreciation over the past year. However, we believe the potential for steady, lower-risk base business growth, with potential significant upside from branded product opportunities, coupled with management’s strong record for execution, justifies ownership. *Taro is a vertically integrated pharmaceutical company that markets both generic and branded pharmaceuticals, with a leading market position in topical dermatology products.* Although based in Haifa Bay, Israel, Taro generates roughly 90% of its revenue in the United States.

Investment Thesis
We are initiating coverage of Taro with a Market Perform rating and Core Growth company profile, and recommend purchase for long-term oriented investors. Over the next three to five years, we believe Taro is poised to generate significant returns from its vertically integrated development, manufacturing, and distribution infrastructure. The company maintains a top position in the market for topical dermatology therapies, which has high barriers to entry given the formulation and regulatory challenges; this is reflected in the relatively low number of competitors Taro faces for many of its major topical products. The company employs a similar strategy in entering generic markets for oral therapies, demonstrated by its increasing share of the roughly $550 million warfarin market, in which it currently competes with just one generic company due to marketing challenges associated with the product. On the branded side, we believe Taro is pursuing a low-risk near-term growth strategy by acquiring and marketing established therapies in its core dermatology market, thereby potentially generating incremental prescriptions for its generic and branded products. Longer-term, we believe the company’s recently built salesforce can be leveraged in promoting internally developed proprietary products, creating potential for significant earnings growth acceleration in the second half of this decade, in our view.

74. “Record” 4Q:03 Results Announced. On February 17, 2004, Taro published a release on Business Wire which announced “record” financial results for the fourth quarter and full year 2003, the period ending December 31, 2003. For 4Q:03 Taro reported that total revenues increased 43% to $88.6 million, net income increased 29% to $16.6 million, or $0.56 per share, and gross profits again increased an astounding 61% to $62.1 million. In addition to the foregoing, this release also quoted defendant B. Levitt, as follows:

“In 2003, the growth and profitability of Taro’s generic business enabled the Company to achieve strong financial performance while establishing and supporting two new proprietary product divisions and continuing to invest in infrastructure and research,” said [defendant B.] Levitt. “Currently, we have 35 filings at the FDA, and we will continue investing in the Company’s long-term growth.”

* * *

“We are satisfied with the progress of Taro’s ElixSure products to date,” said [defendant B.] Levitt. “The ElixSure line achieved broad nationwide distribution during 2003, and we are adding to the ElixSure product portfolio. We continue to support these products in the marketplace.”
4Q:03 Conference Call. Later the same day, on February 17, 2004, defendants hosted a conference call for analysts and investors during which defendants stated, in part, the following:

B. LEVITT: *We are proud of Taro’s performance for the fourth quarter and for the full year of 2003.* This represents 20 consecutive years of record sales and 6 consecutive years of record net income. The focus of our activities during 2003 was the establishment of additional platform for Taro’s long-term growth.

*As has been true throughout our recent history, new product research has been at the top of our agenda.* We invested more than $40m in generic and proprietary drug development during 2003. Our research programs resulted in 23 filings with the FDA in 2003 with an additional filing and two approvals so far in 2004. We now have 35 filings awaiting action at the Food and Drug Administration. These include 34 abbreviated new drug applications including tentative approvals for loratadine syrup and fluconazole tablets. We have expanded research and development operations in Israel, Canada, the United States, and Ireland, which together employ more than 275 people including more than 80 professionals with doctoral degrees in medicine for the health science.

* * *

In addition to investments in research and development in 2003, we expanded the breadth and scope of our strategic marketing initiatives. In the United States, we established the Taro Consumer Healthcare Products division for marketing directly to consumers. We also launched the TaroPharma division for marketing proprietary prescription products to physicians. These expanded marketing efforts and the administrative support they required were to a significant extent responsible for the growth in selling and administrative expenses in 2003.

*Our generic division has continued its record of growth during 2003. The strong performance of Taro’s generic business is attribute to the excellence of the division’s sales and marketing organization and the efficiency of the Company’s production and distribution operation.* Finally in order to assure that our expanded research and marketing efforts could be translated into commercially meaningful results, it was prudent to augment production and warehousing capacity around the world. We invest in more than $90m in property, plant, and equipment in 2003, to provide capacity to make us a reliable business partner to our customers. We are continuing to implement a major facilities expansion program to enable the Company to keep pace with the demand for our products, enter newer markets, and broaden our product lines. We expect this capital expenditures program to more than triple production capacity by the end of 2005. We are very proud of the dedication and hard work of the Taro personnel to produce the outstanding results that Taro achieved this year. *We
look to the past with pride and to the future with confidence. Thank you. And now Kevin Connelly, our Chief Financial Officer will provide details of our financial results.

76. The statements contained in the Company’s February 17, 2004 release and those statements made by defendants to analysts, investors and the press at or around that time, which statements are reproduced in part herein supra, were each materially false and misleading when made and were known by defendants to be false at that time or were recklessly disregarded as such thereby, for the reasons stated herein in ¶41, supra.

77. **Additional Analyst Reports.** As shares of Taro continued to trade at or near record historical highs, and following defendants report of 4Q and FY:03 results, between February 17 – 18, 2003 analysts at CIBC World Markets, Bear Stearns and William Blair, among others, issued very positive reports on the Company, all recommending that investors purchase shares of the Company, and stating, in part, the following:

**CIBC World Markets. Overweight (2/17/04)**

Strong gross margin and a significantly lower-than-expected tax rate offset record SG&A spend to just beat bottom-line expectations in 4Q03. Core product sales continue to show no sign of slowing as Taro’s recent entry into the brand market appears to be well-received.

* * *

**With continued stability in TARO’s marketed generic portfolio, a potential positive impact from the company’s move towards higher margin branded products, such as ElixSure, we continue to believe an upside story is building. We are raising our 2004 EPS estimate to $2.52, from $2.46 previously, and model 1Q04 EPS of $0.53, down sequentially owing to continued ElixSure promotion and gross margin returning to more normalized levels. We forecast 2005 EPS of $3.07.**

We are also establishing a $69 price target for TARO, applying a generic group multiple of 22.5x our 2005 EPS estimate of $3.07.

**Bear Stearns. Stellar Generic Business Drives Outstanding Quarter (2/18/04)**
We are not making any changes to our annual 2004 – 2005 EPS estimates which remain at $2.55 and $3.10, respectively. We view these estimates as minimums with significant room for upside depending on time and magnitude of new product approvals. We currently forecast 2004 EPS of $2.55 (24%) which is conservative with respect to total revenues of nearly $400M (+26%) and operational expenses of $177M (+28%). We expect EPS growth to accelerate along 2H04 as SG&A growth should moderate from the annualization of spend following the launch of the ElixSure and Kerasal product lines last fall. We expect 2H04 EPS growth of 31% vs. 1H04 growth of 15% as the business begins to show signs of seasonality from the brand business as expense base and tax rate are expected to fluctuate during the cough/cold season (Q1 and Q4). Maintain Peer Perform rating... *Earnings growth exceeding expectations key to driving Taro and generic stocks higher in 2004.*

William Blair. Market Perform (2/17/04)

We continue to view Taro as one of the most compelling long-term investment opportunities among small- to mid-cap pharmaceutical companies. However, after a strong stock run in 2003 and, in our view, few identifiable near-term catalysts expected in 2004, we maintain our Market Perform rating.

78. ING “BUY” Rating. In addition to the foregoing, on March 25, 2004, ING Financial Markets also initiated a report and published a “BUY” rating on shares of the Company. At this time, analysts at ING issued a very detailed report of almost 50 pages, which stated, in part, the following:

*In our view, Taro is a growth company with a growth stock as we forecast 24% average EPS growth for the next five years. We value the stock at a 44% premium to the current price and thus initiate our coverage with a BUY rating.*

**Strong growth prospects.** We expect Taro to stay on the avenue of growth for the next few years. Management’s track record, a rich pipeline and recent entry into new market segments are the foundations of our average 27% and 24% top- and bottom-line growth, respectively, for the next five years.

* * *

**Valuation.** Our APV-derived fair value is US$82.5 per share, 44% above the current price. The price target equivalent of this valuation is US$92.0. While valuation multiples in absolute terms are not low, we point out Taro’s PEG ratio of 0.9x. *Taro is our top pick in our EEMEA pharmaceutical universe* and one of our top picks in our Israeli universe, although we note that we do not see obvious price catalysts for the stock.
Overall, we expect a 28% compounded annual growth rate in the US for the next five years. While this may seem optimistic, we note that the growth rate was 42% in the previous five years when the product pipeline was considerably smaller than today (9 at the end of 2000 and 34 at the end of 2003).

79. On April 27, 2003, as shares of the Company traded to almost $63 per share, Able Laboratories, a competitor of the Company which also manufacturers and markets generic drugs, issued a release announcing that Robert J. Mauro had been appointed its President and Chief Operating Officer. While Taro made no announcement concerning Mr. Mauro’s departure from the Company, prior to his assuming his new position at Able Labs, Mr. Mauro served as President of Taro’s North American Generics Division - - the segment of the Company accountable for over 82% of Taro’s revenues during 2002.

THE TRUTH BEGINS TO EMERGE

80. By April 29, 2004, after having collected at least $110 million from the sale of unregistered debt securities during the Class Period, the first signs of problems at the Company became known to investors after defendants revealed that the operational condition of the Company was being adversely affected by rising SG&A expenses and other costs. On that day, defendants announced results for 1Q:03, the period ended March 31, 2004, with earnings below analysts’ estimates and with SG&A expenses well above guidance, as follows:

First Quarter Financial Results

Taro’s first quarter 2004 sales increased 22% to $84.1 million, compared with sales of $69.0 million for the first quarter of 2003. Gross profit in the first quarter of 2004 increased 27% to $56.4 million, or 67% of sales, compared with $44.4 million, or 64% of sales, for the year-ago quarter.

Selling, general and administrative (“SG&A”) expenses were 41% of sales, or $34.1 million, compared with 25% of sales, or $17.5 million, in the first quarter of 2003. SG&A expenses in the quarter reflect increases in selling costs associated with the Company’s U.S. marketing activities for proprietary products, including its ElixSure(R) line of spill-resistant children’s medicines, and Kerasal(R), Taro’s
exfoliating moisturizer for the feet, as well as costs associated with the professional medical representatives of the Company’s TaroPharma division.

Operating income before R&D expenses decreased to $22.2 million, or 26% of sales, compared with $26.8 million, or 39% of sales, for the year-ago quarter. R&D expenses increased to $11.7 million, or 14% of sales, compared with $8.7 million, or 13% of sales, for the first quarter of 2003. Operating income decreased to $10.5 million from $18.1 million for the year-ago quarter.

Net income for the quarter decreased 21% to $11.1 million, or $0.37 per diluted ordinary share, compared with $14.0 million, or $0.47 per diluted ordinary share, for the first quarter of 2003. While revenues and gross profit increased compared with the first quarter of 2003, these increases were not sufficient to fully offset the additional investments in the Company’s proprietary initiatives during the first quarter of 2004.

While defendants were forced to reveal some of these adverse conditions, at this time, defendant B. Levitt again used this release to condition investors to believe that the Company was still operating within defendants’ range of expectations and that these adverse conditions were not expected to continue to adversely impact the Company in the foreseeable near term, as follows:

“Our results for the quarter reflect a strategic decision to make substantial investments in our Company in order, ultimately, to develop profitable proprietary products,” said [defendant B.] Levitt. “While this decision is having a short-term negative impact on our results, we believe we are on the right path for the future.”

81. Despite defendants’ failure to disclose the full impact of these adverse conditions of the Company — in addition to other adverse conditions which were still undisclosed at that time — as investors digested the significance of these results, shares of the Company fell from a close of just over $62.00 per share on April 28, 2004 to a low of about $41.00 per share, a decline of 30% in the single trading day.

82. 1Q:04 Conference Call. In addition to his statements contained in the Company’s press release, during the Company’s conference call the same day, April 29, 2004, defendants attempted to mollify investors and described the Company’s 1Q:04 miss as a one-
time event, not expected to continue into the foreseeable future, and also stated, in part, the following:

BARRIE LEVITT, CHAIRMAN, TARO PHARMACEUTICAL INDUSTRIES: Thank you Dan and good morning everyone. Our results for the quarter reflects a strategic decision to make substantial investments in our Company in order ultimately to develop profitable proprietary products. While this decision is having a short-term negative impact on our results, we believe that we are on the right path for the future.

Now for the specifics, sales and gross profit increased in the quarter compared with the same period last year. However, the additional revenues were not sufficient to offset the strategic investments in the Company’s proprietary product initiatives. We felt that it was important to support the ElixSure product line with the advertising, promotion and selling expenses needed to achieve nationwide distribution and consumer awareness in the United States. We believe that we have succeeded in this effort. [Rather] has been remarkable consumer satisfaction with the ElixSure products. It takes time to change consumer buying habits. In the first quarter, we did not achieve the reorders levels that would have been necessary to offset the very substantial marketing expenses undertaken in association with the new product launch. However, the launch did achieve certain key objectives.

***

Those of you who have followed Taro over the years, know that the company takes a long-term approach to its business. While, this commitment resulted in a reduction of profit in the first quarter, we strongly believe that it’s the best course for us to take in order to build shareholder value. Thank you. Kevin, could you provide more details on our results.

83. Merrill Lynch Report. As evidence that defendants were successful in their continuing attempts to mislead investors and analysts, following the Company’s release of 1Q:04 results, on April 29, 2004, Merrill Lynch issued an analyst report which only revised its rating on the Company mildly, downgrading shares of the Company merely to “Neutral” from its previous “Buy” rating.

84. Awad Capital Management Accumulate. As further evidence that defendants’ statements continued to mislead analysts and investors, in May and again in June 2004, Jim Awad, owner and lead trader of Awad Asset Management, and a regular stock commentator on
cable financial network CNNfn, appeared on an evening stock news show “Your Money,” here he advised investors to accumulate shares of the Company, as follows:

YOUR MONEY May 13, 2004

JIM AWAD, AWAD ASSET MANAGEMENT: OK.

VELSHI: You have stock now in your portfolio when you got rid Bara (ph).

AWAD: Right.

VELSHI: You’re replacing with Taro Pharmaceuticals

AWAD: Yes, now we’re a small cap, we try to run between the range robs, and in healthcare, that’s where you get the best opportunity. You’re a guerrilla fighter and you find pockets of opportunity. Now Taro Pharmaceuticals is a generic company specializing in creams and ointments, drugs that are applied to creams and ointments. And they have what we would call — see that big drop on the chart?

That just happened when we started to buy the stock, because they had a quarter that disappointed the growth momentum players. We view it, what we call a funny quarter; in other words, it’s a quarter where there was a confluence of nonrecurring events that created an earnings disappointment. We think it will be reversed with some luck the company could earn $3 next year. If they don’t earn $3, they’ll earn $2.75. We think it is sort of cheap and if our analysis is right and it was a one-time event with the quarter, we think the stock could go back to 65 or so.

YOUR MONEY July 6, 2004

VELSHI: Allen in Georgia is writing to us about is Taro Pharmaceuticals

AWAD: Absolutely, and now you can buy it again. Tremendous volatility in the stock, and I generally don’t like to invest in companies that have this much volatility. But here we have pretty good fix on the fundamentals, so we have the confidence to deal with the volatility, but basically, it’s a generic drug company with a specialty in ointments and creams, and they are sort of diversifying their business base. But the bottom line is this we think this company has a shot at earning $3 next year.

So if you can buy the stock at $42, $43 a share. You are paying less than 15 times for a 20 percent growth company with a good balance sheet. So what you want to do is buy, it $38 to $43.4 and then we think it’s got a fair value of something like $60. So based on what we see over the next 12 months. So you
want to buy it on days like today when the market is down, and the stock is down. You don’t want to buy it after it had a move I think $38 to $47 a few weeks ago. You want to buy it when it’s down, not up. But you have a good fundamental horse to ride here.

THE TRUE FINANCIAL CONDITION OF THE COMPANY IS ULTIMATELY DISCLOSED

85. The Second Shoe Drops. By July 29, 2004, when defendants announced results for 2Q:04, they could no longer continue to conceal the true impaired condition of the Company. On this day, Taro shares plunged over $11.50 per share, to a new multi-year low of $18.68 per share, after defendants revealed that results for the second quarter were far lower than previously guided. In fact, compared to analyst consensus estimates of earnings of $0.44 per share, defendants suddenly announced an astounding loss of $0.31 per share. At this time, Taro said sales of its drugs fell to $49.1 million from $74.8 million a year ago as several of its largest wholesale customers reduced their purchases and the company faced price competition for its generic drugs.

86. The chart below indicates the artificial inflation in the price of Taro shares during the Class Period, and the sudden and dramatic decline in the share price following defendants belated, corrective disclosures, as follows:
87. During the Class Period, the market for Taro's securities was open, well-developed and efficient. As a result of these materially false and misleading statements and failures to disclose, Taro common stock traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired Taro securities relying upon the integrity of the market price of Taro securities and market information relating to Taro, and have been damaged thereby.

88. During the Class Period, defendants materially misled the investing public, thereby inflating the price of Taro common stock by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

89. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the
damages sustained by plaintiff and other members of the Class. As described herein, during the Class Period, defendants made or caused to be made a series of materially false or misleading statements about Taro’ business, prospects and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Taro and its business, prospects and operations, thus causing the Company’s securities to be overvalued and artificially inflated at all relevant times. Defendants’ materially false and misleading statements during the Class Period resulted in plaintiff and other members of the Class purchasing the Company’s securities at artificially inflated prices, thus causing the damages complained of herein.

Applicability Of Presumption Of Reliance: Fraud-On-The-Market Doctrine

90. At all relevant times, the market for Taro’s securities was an efficient market for the following reasons, among others:

(a) Taro’s stock met the requirements for listing, and was listed and actively traded on the Nasdaq Exchange, a highly efficient and automated market;

(b) As a regulated issuer, Taro filed periodic public reports with the SEC and the Nasdaq Exchange;

(c) Taro regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) Taro was followed by several securities analysts employed by major brokerage firm(s) who wrote reports which were distributed to the sales force and certain
customers of their respective brokerage firm(s). Each of these reports was publicly available and entered the public marketplace.

91. As a result of the foregoing, the market for Taro securities promptly digested current information regarding Taro from all publicly available sources and reflected such information in Taro stock price. Under these circumstances, all purchasers of Taro securities during the Class Period suffered similar injury through their purchase of Taro securities at artificially inflated prices and a presumption of reliance applies.

**NO SAFE HARBOR**

92. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as “forward-looking statements” when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Taro who knew that those statements were false when made.
FIRST CLAIM
Violation Of Section 10(b) Of The Exchange Act And Rule 10b-5 Promulgated Thereunder Against All Defendants

93. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

94. During the Class Period, defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including plaintiff and other Class members, as alleged herein; (ii) enable the Individual Defendants and other Taro insiders to sell at least $110 million in unregistered debt securities to investors and banks in Israel, during the time that Taro shares were at the height of their artificial inflation and prior to such time as defendants revealed the true financial and operational condition of the Company; and (iii) cause plaintiff and other members of the Class to purchase Taro securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, jointly and individually (and each of them,) took the actions set forth herein.

95. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company’s securities in an effort to maintain artificially high market prices for Taro’s securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

96. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a
continuous course of conduct to conceal adverse material information about the business, operations and future prospects of Taro as specified herein.

97. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Taro’s value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Taro and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of Taro securities during the Class Period.

98. Each of the Individual Defendants’ primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company’s management team or had control thereof; (ii) each of these defendants, by virtue of his responsibilities and activities as a senior officer and/or director of the Company was privy to and participated in the creation, development and reporting of the Company’s internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of and had access to other members of the Company’s management team, internal reports and other data and information about the Company’s finances, operations, and sales at all relevant times; and (iv) each of these defendants
was aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

99. The defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing Taro's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by defendants' overstatements and misstatements of the Company's business, operations and earnings throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

100. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Taro securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of Taro's publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or recklessly disregarded by defendants but not disclosed in public statements by defendants during the Class Period, plaintiff and the other members of the Class acquired Taro securities during the Class Period at artificially high prices and were damaged thereby.

101. At the time of said misrepresentations and omissions, plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had plaintiff and the
other members of the Class and the marketplace known the truth regarding the problems that Taro was experiencing, which were not disclosed by defendants, plaintiff and other members of the Class would not have purchased or otherwise acquired their Taro securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

102. By virtue of the foregoing, defendants have violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

103. As a direct and proximate result of defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

SECOND CLAIM
Violation Of Section 20(a) Of The Exchange Act Against Individual Defendants

104. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

105. The Individual Defendants acted as controlling persons of Taro within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public
filings and other statements alleged by plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

106. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

107. As set forth above, Taro and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of defendants' wrongful conduct, plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

WHEREFORE, plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action, designating plaintiff as Lead Plaintiff and certifying plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees;
D. Awarding extraordinary, equitable and/or injunctive relief as permitted by law, equity and the federal statutory provisions sued hereunder, pursuant to Rules 64 and 65 and any appropriate state law remedies to assure that the Class has an effective remedy; and

E. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: August 2, 2004

MILBERG WEISS BERSHAD & SCHULMAN LLP

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Attorneys for Plaintiff
CERTIFICATION

I, , do hereby certify that I have reviewed the complaint and have authorized its filing.

I did not purchase securities of Taro Pharmaceutical Industries, Ltd. that are the subject of the complaint at the direction of my counsel or in order to participate in any private action arising under the Securities Act of 1933 or Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995.

I am willing to serve as a representative party on behalf of a class, including providing testimony at deposition and trial, if necessary.

During the Class Period, I engaged in the following transactions involving the securities of Taro Pharmaceutical Industries, Ltd.:

<table>
<thead>
<tr>
<th>TRANSACTION</th>
<th>TRADE DATE</th>
<th>NO. OF SHARES</th>
<th>PRICE/SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>8/19/2004</td>
<td>100</td>
<td>51.83</td>
</tr>
</tbody>
</table>

I have neither sought to serve nor served as a representative party on behalf of a class in an action brought under the federal securities laws that were filed during the three-year period preceding the date of this certification.

I will not accept any payment for serving as a representative party on behalf of the Class beyond my pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly related to the representation of the Class and my activities in the lawsuit as ordered or approved by the Court.

Nothing herein shall be construed to be or constitute a waiver of my attorney-client privilege.

I certify under penalty of perjury that the foregoing is true and correct.

Executed on 05/23/2004

Signature: 

Address: 

Phone: 704-841-8807
## Demand

The JS-44 civil cover sheet and the information contained therein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for use of the Clerk of the Court for the purpose of initiating the civil docket sheet.

### Plaintiffs

Loretta Zwicker, Individually And On Behalf Of All Others Similarly Situated

### Defendants

Taro Pharmaceutical Industries Ltd., Barrie Levitt, Aaron Levitt, Daniel Moros, Samuel Stein and Kevin Connelly

### Attorneys

Steven G. Schulman and Peter E. Feldman of Milberg Weiss Bershad & Schulman LLP in New York, New York 10119

### Cause of Action

- **Nature of Suit**: Section 10(B) of The Exchange Act and Rule 10b-5 Promulgated Thereunder; Section 20(A) of The Exchange Act
- **Actions Under Statutes**: Other Statutes
- **Torts**: Personal Injury
- **Forfeiture/Penalty**: Bankruptcy
- **Other**: Real Property
- **Civil Rights**: Criminal Rights
- **Prisoner Petitions**: Empl Ret Inc Security Act
- **Criminal**: Other Statutory Actions

### Note

Please submit at the time of filing an explanation of why cases are deemed related.

### Actions

- **Received by Clerk**: 08/02/2004
- **D.O.C. S.D.N.Y.**: Cashiers
- **Page**: 1 of 1

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**Check if demanded in complaint:**

- **CHECK THIS CASE IS A CLASS ACTION UNDER F.R.C.P. 23**
- **Demand**: 
  - YES [ ]
  - NO [ ]

**Check if demanded in complaint**

- **Jury Demand**: 
  - YES [ ]
  - NO [ ]

**Note:** Please submit at the time of filing an explanation of why cases are deemed related.
**ORIGIN**
- [ ] Original Proceeding
- [ ] 2 Removed from State Court
- [ ] 3 Remanded from Appellate Court
- [ ] 4 Reinstated or Reopened
- [ ] 5 Transferred from (Specify District)
- [ ] 6 Multidistrict Litigation
- [ ] 7 Appeal to District Judge from Magistrate Judge

**BASIS OF JURISDICTION**
- [ ] 1 U.S. PLAINTIFF
- [ ] 2 U.S. DEFENDANT
- [ ] 3 FEDERAL QUESTION
- [ ] 4 DIVERSITY

**CITIZENSHIP OF PRINCIPAL PARTIES (FOR DIVERSITY CASES ONLY)**
- [x] Citizen of this State
- [x] Citizen of another State
- [x] Incorporated or principal place of business in another state
- [x] Foreign nation

**PLAINTIFF(S) ADDRESS(ES) AND COUNTY(IES) (Calendar Rule 4(A))**
- Loretta R. Zwickel
- 9114 Kalanchoe Drive
- Matthews, NC 28105
- Mecklenburg County

**DEFENDANT(S) ADDRESS(ES) AND COUNTY(IES) (Calendar Rule 4(A))**
- TARO PHARMACEUTICAL INDUSTRIES, LTD.
- Five Skyline Drive
- Hawthorne, NY 10532
- Westchester County
- c/o BARRIE LEVITT,
  - AARON LEVITT,
  - DANIEL MOROS,
  - SAMUEL RUBINSTEIN
- and KEVIN CONNELLY

**DEFENDANT(S) ADDRESS UNKNOWN**
- Representation is hereby made that, at this time, I have been unable, with reasonable diligence, to ascertain the residence addresses of the following defendants:

**REPRESENTATION**

**SIGNATURE OF ATTORNEY OF RECORD**
- [ ] WHITE PLAINS
- [x] FOLEY SQUARE

**ADMITTED TO PRACTICE IN THIS DISTRICT**
- [ ] NO
- [x] YES (DATE ADMITTED Mo. January Yr.1996 )

Magistrate Judge is to be designated by the Clerk of the Court.

Magistrate Judge ___________________________ is so Designated.

J. Michael McMahon, Clerk of Court by _______________ Deputy Clerk, DATED ___________________________

UNITED STATES DISTRICT COURT (NEW YORK SOUTHERN)